Employed Physician Networks

A Guide to Building Strategic Advantage, Value, & Financial Sustainability

Today's Presenters

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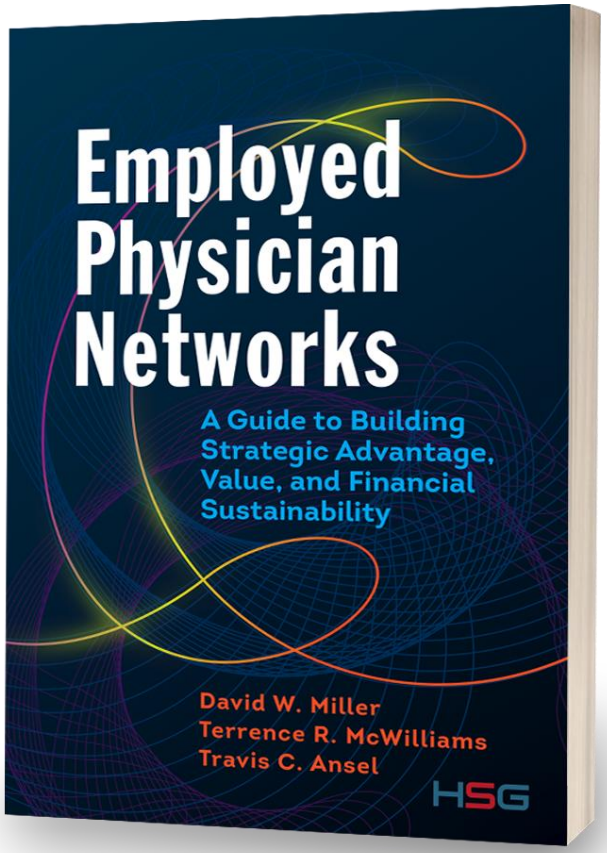
- Physician Network Strategy
- Market Development Strategy
- Operational and Financial Performance
- Management Infrastructure

What We're Talking About Today
HSG Philosophy on Health System Employed Networks



- Published in December 2018 in partnership with American College of Healthcare Executives (ACHE) and Health Administration Press
- Provides philosophy and framework for moving a group of employed providers to a tightly-integrated, high-performing network
- Central to HSG's consulting work with health systems across the country
- https://www.amazon.com/Employed-Physician-Networks-Sustainability-Management/dp/1640550364

HSG: https://hsgadvisors.com/hsgs-book/hsg-thought-leadership-book/

The Evolving Focus of Health System Executive Teams
Employed Physician Networks, Not Hospitals

- Employed provider networks now driving the majority of revenue and patient access within the health system
- Core to the health system's success as accountability for outcomes increases and as health systems assume greater financial risk
- Will be core to success in a Fee-for-Service or Fee-for-Value environment

Modern Healthcare

NEWS INSIGHTS TRANSFORMATION DATA/LISTS OP-ED AWARDS EVENTS LISTEN MORE +

Focus on Employed Physicians, Not Hospitals, to Succeed

David W. Miller, Founding Partner at HSG

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Driven by changing demands of the market, the core focus of healthcare leaders must evolve. Managing episodic patient care delivery, with a focus on hospital operations, will decline in importance. Your team's ability to work with a tightly aligned employed physician network, to manage and rationalize care across the continuum, will grow in importance.

Two trends are driving this reality: the growth in value-based payments and the growth in hospital employment of physicians, particularly in primary care. The percentage of payments tied to value-based incentives grew from 23% in 2015 to 34% in 2017. CMS has a goal to hit 50% by 2020. Healthcare executives clearly recognize this trend, with a 2018 survey by Lumeris documenting that 72% of executives consider planning for the transition to risk-based contracting to be a high priority.

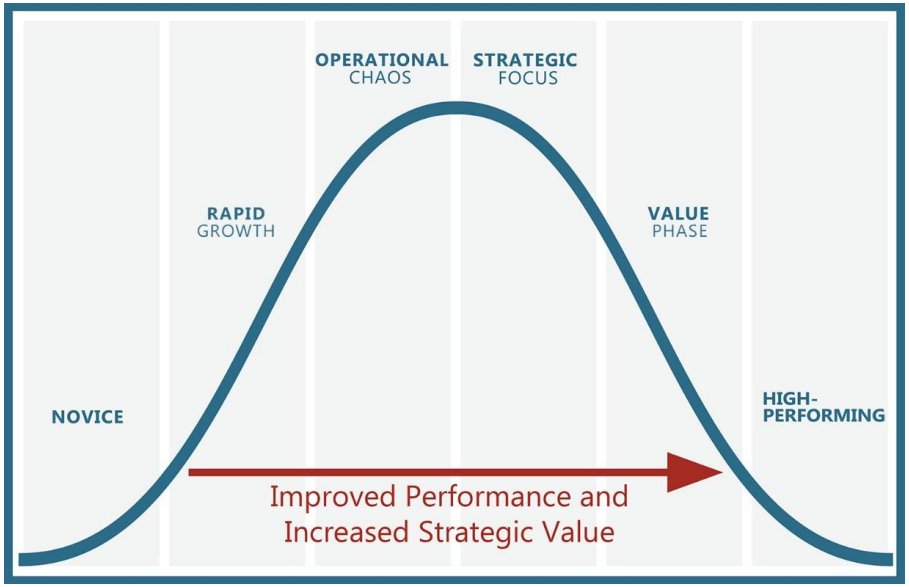
At the same time, hospital employment of physicians continues to grow, approaching 50% of the physician market nationwide. The intersection of these two trends compels health systems to develop a strong employed physician network that can focus on delivering predictable outcomes across the continuum, whether cost, quality, or experience related.

While clinically integrated networks can be useful, and provide a forum for engaging private practitioners, they represent a higher risk due to misalignment of goals. Employed physician networks offer a unique opportunity for alignment of vision, values and incentives. You need only look to the *US News* top hospitals to infer the advantage created when physicians are tightly integrated as employees.

HSG: https://hsgadvisors.com/articles/modern-healthcare-focus-on-employed-physician-networks-not-hospitals-to-succeed/
Modern Healthcare: https://www.modernhealthcare.com/physicians/focus-employed-physicians-not-hospitals-succeed

Two Core Concepts for Employed Network Evolution

HSG Physician Network Growth Phases



How Networks Evolve Over Time

HSG Eight Key Elements

Key Areas of Focus for Management Teams

HSG Elements of High-Performing Physician Network

- *Strategy.* The employed provider network must have a strategy of its own that syncs with the strategic goals and objectives of the health system. The strategy must be focused on achieving a Shared Vision of success between administration and providers.
- *Culture.* The shared values, expectations and norms that drive culture must be defined and canonized to promote a multi-specialty group mindset, that exists to drive the goals of the health system.

- *Quality.* The group must have the ability to produce consistent outcomes across the continuum of care, based on best practices. This includes building systems to measure and define quality, and creating a supportive culture and compensation model.
- *Brand.* Building a brand that supports the health system and positions the group to be the provider of choice take a long time to develop, but is key to success of a group.

Book Chapter 4

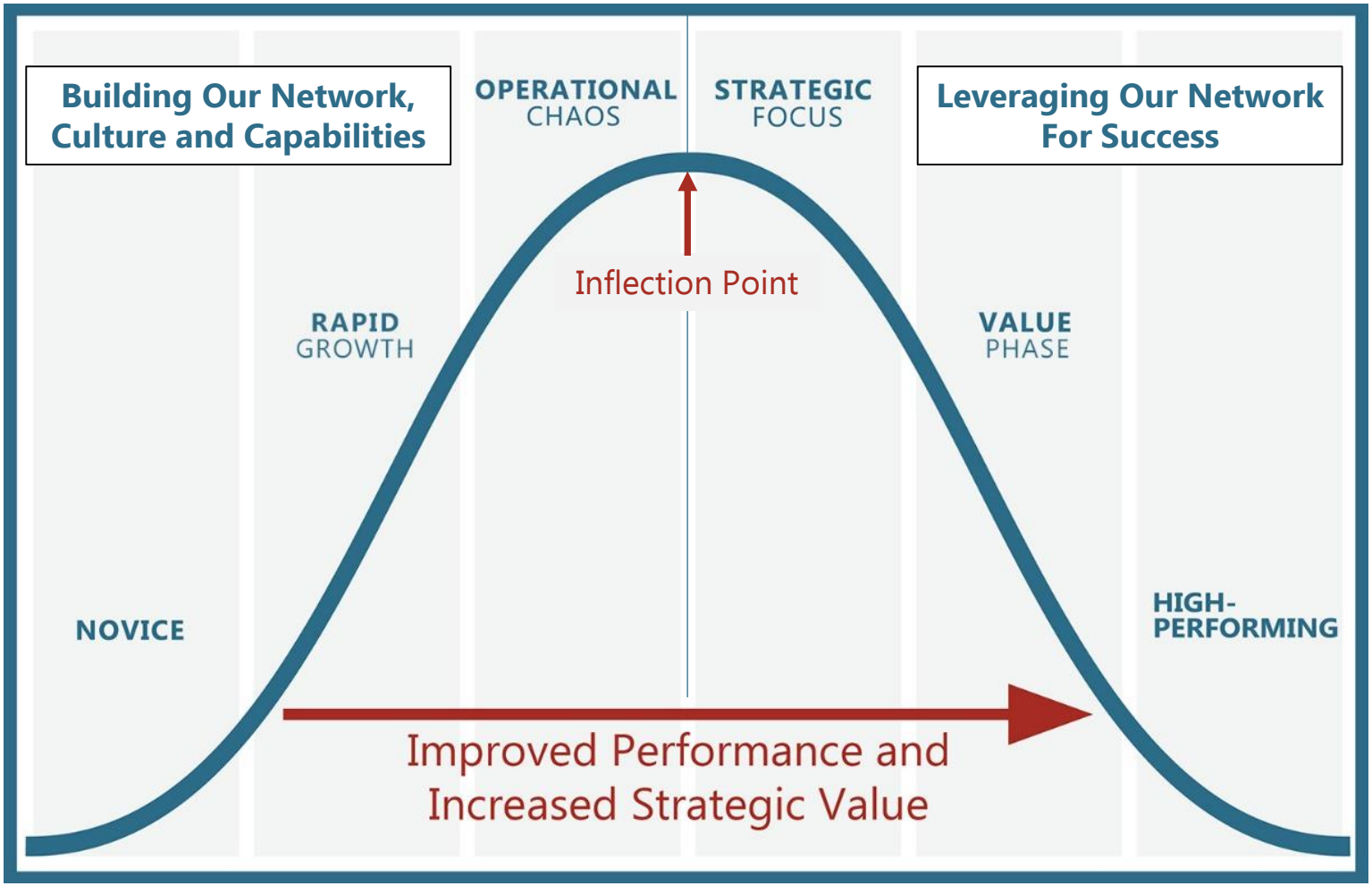
HSG Elements of High-Performing Physician Network

- *Physician Leadership.* Physician leadership must be structured to promote a "physician-led, professionally-managed" mindset. The leadership structure must fit within the organizational structure of the group and not exist in a vacuum.
- *Management Infrastructure.* Infrastructure must be right-sized for the group's historic growth, and have the right roles and the right people. Under-investment in infrastructure is a common driver of underperformance.

- *Financial Sustainability.* To move the organization beyond the discussion of "losses", the organization must define and meet a realistic definition of sustainability. This must focus on both revenue generation and expense management.
- *Aligned Compensation. Networks must have a common compensation philosophy that is transparent, aligns pay with payer reimbursement, and progressively incorporates non-productivity incentives.*

Book Chapter 4

HSG Physician Network Growth Phases



Book Chapter 2

HSG Physician Network Growth Phases

Novice. The phase when the organization starts employing physicians, generally with limited expertise and management infrastructure.

Rapid Growth. When organizations see a substantial growth in the number of employed physicians, driven by economic pressure on doctors in the private practice market and/or competitive pressure between health systems.

Operational Chaos. The phase characterized by growth outstripping management capabilities, leading to operational problems and mounting losses.

Strategic Focus. Phase when the health system begins to see the network as a strategic asset, integrates it with the system strategy, and engages the physicians in that effort.

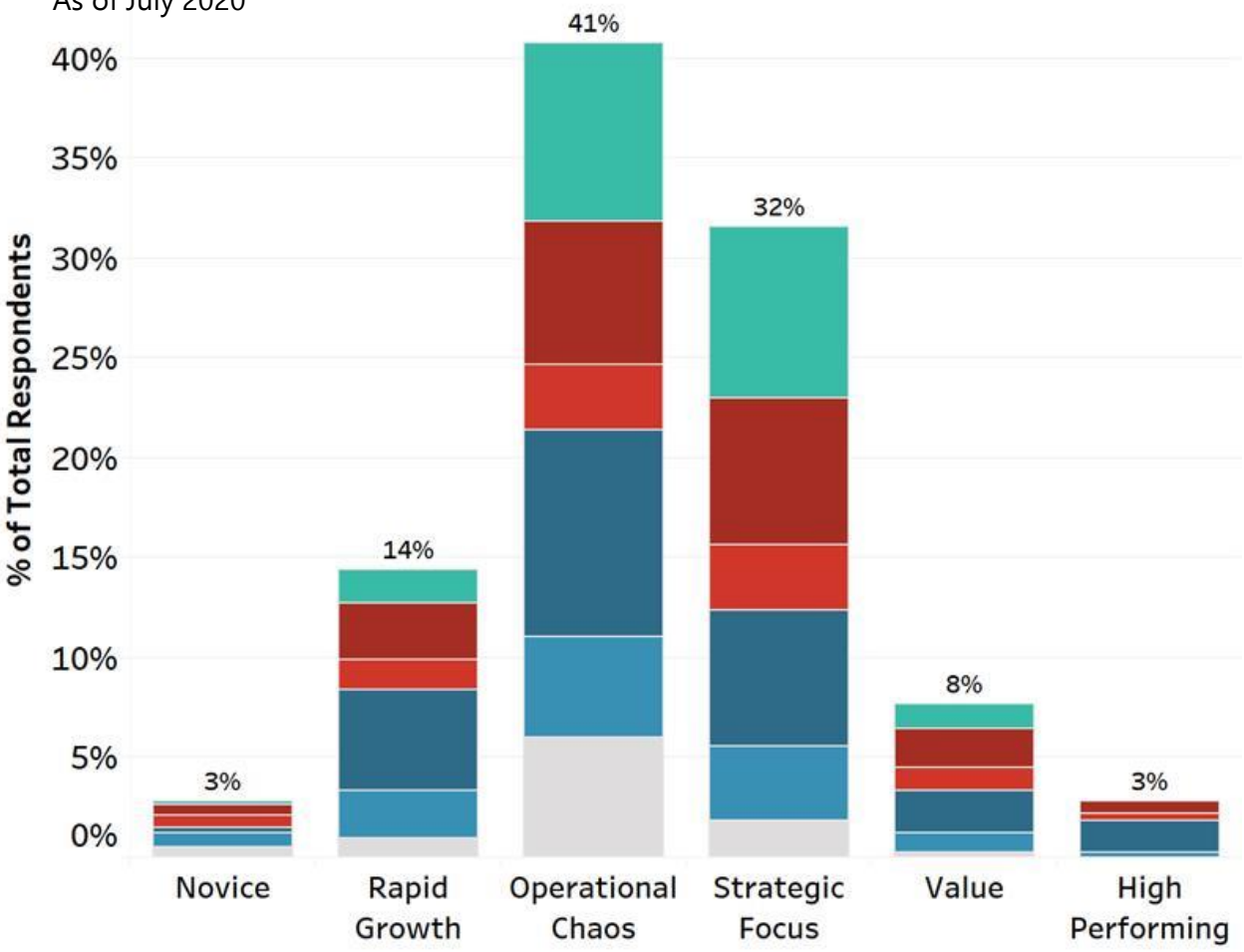
Value. When the group can deliver tangible value for the system, including positive performance on meeting value-based indicators.

High Performing. A multi-specialty group that is performing well, able to produce predictable cost and quality outcomes, and able to manage risk contracts.

Book Chapter 2

Employed Physician Networks by Phase
Results from HSG Physician Network Evaluation Survey

As of July 2020



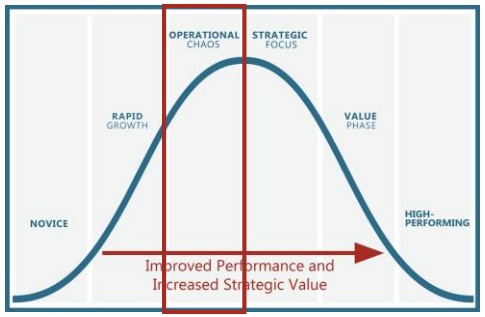
- Aggregated results of over 5000 responses to HSG Physician Network Evaluation Survey across 400+ employed networks
- 73% in Operational Chaos or Strategic Focus

Key Management Actions by Phase

NOVICE	GROWTH MODE	OPERATIONAL CHAOS	STRATEGIC FOCUS	VALUE PHASE	HIGH-PERFORMING
Physician Alignment Strategy	Management Infrastructure	Network Performance Improvement	Shared Vision / Culture	Early Risk Contracting (ACO, Direct Contracting, Bundled Payments)	Leverage Network in Marketplace
Define Compensation Principles	Physician Leadership Development	Revenue Cycle and Productivity Systems	Network Strategic Plan, Integrated with System Plan	Optimize Physician Engagement in Performance Improvement	Full Risk Contracting
Interim Management	Acquisition and FMVs	Physician Advisory Council Enhancement	Clinical Practice Transformation / Population Health	Quality and Patient Experience Focus Across Continuum	Manage Populations
Executive Search	IT Strategy	Enhance Management Infrastructure	Quality / MACRA / Patients' Experience	Brand Enhancement	Provider of Choice
		Referral Capture / Network Integrity	Aligned Compensation Incentives		

Book Chapter 4

Characteristics of HSG Physician Network Growth Phases
Operational Chaos



Characteristics of **Operational Chaos**

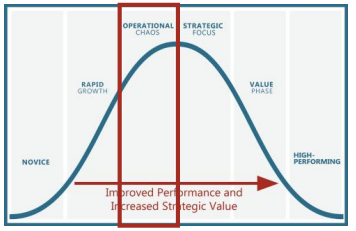
- The network experiences progressive "operational chaos" as disparate practices operate under disparate processes & insufficient infrastructure
- Network growth outstrips management infrastructure capabilities
- Network experience increasing practice subsidies (losses)
- Hospital leadership senses need to control the group's growth and limit losses
- Limitation of employment offers and growth due to mounting financial issues
- Provider and staff frustration builds; sense of "loss of control"

Transitioning out of **Operational Chaos**

Network operations begin to stabilize due to focus on financial sustainability and development of infrastructure. → Culture and physician leadership become key leverage points. → Growth in providers and practices becomes strategic. "What do we need to have" versus "what's out there?" → Focus on network finances turns to revenue instead of expense → Provider growth, capability growth, referral management, marketing, physician liaison activities become a greater focus.

Book Chapter 7

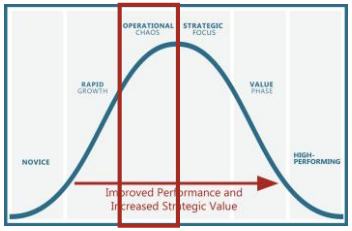
Operational Chaos
Building a Path to Financial Sustainability



Network Improvement Opportunities	Influencing Factors
Can we increase collections on existing volume?	• Fee schedule • Payer mix and market demographics • Revenue cycle effectiveness • Coding and documentation
Can we decrease expenses on existing volume?	• Provider mix (Physicians vs Advanced Practitioners) • Staffing levels and utilization • Administrative overhead • Practice overhead • Practice consolidation
Can we generate more volumes with existing providers and staff?	• Patient retention • Provider schedules and scheduling templates • Patient access • Efficient practice operations • Care management • Service and procedure mix • Top-of-license provider utilization
Do we have the required organizational capabilities to make these adjustments?	• Aligned compensation • Shared vision and culture • Management infrastructure • Governance • Physician leadership and engagement • Data reporting

Book Chapter 7

Operational Chaos
Addressing Management Infrastructure



Common Characteristics of Management Infrastructure in Operational Chaos Networks

Lack of Dedicated Resources
Operational Chaos networks tend to have multiple shared resources with the health system, leading to a lack of support for the network overall. Employed networks in Operational Chaos should seek to have full-time leadership, as well as clearly dedicated personnel and resources, even for functions shared with the health system (i.e. revenue cycle and billing).

Excessive Span of Control
Operational Chaos networks tend to have a lack of investment in leadership, resulting in wildly out-of-line management span of control. Networks should aim for having an organizational structure that promotes a span of control of 5-7 capable direct reports. Any more than this, and the accountability and mentorship of the reporting roles suffers.

Disconnect Between Administrative and Physician Leadership
Operational Chaos networks frequently do not have well-developed physician leadership or advisory functions, and when these do exist, they operate in a vacuum outside of the administrative chain-of-command.

Gaps in Capabilities of Practice-Level Leadership
Underinvestment in management resources, combined with excessive span of control usually results in a lack of mentorship and training for practice-level management. This results in the network feeling paralyzed, unable to implement initiatives that would help it move out of Operational Chaos.

Lack of Standardization of Process Leading to Daily "Fire-Fighting"
Operational Chaos networks tend to be characterized by the practices within the network operating similarly to how they existed when they were acquired and brought into the network. This results in each practice operating with a diverse set of policies and procedures, which makes implementation of initiatives to drive organizational change nearly impossible.

Book Chapter 7

Operational Chaos
Standardizing Compensation Models

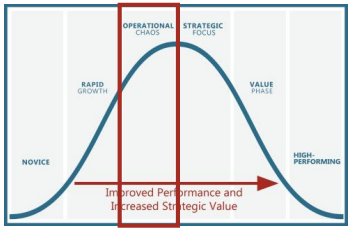
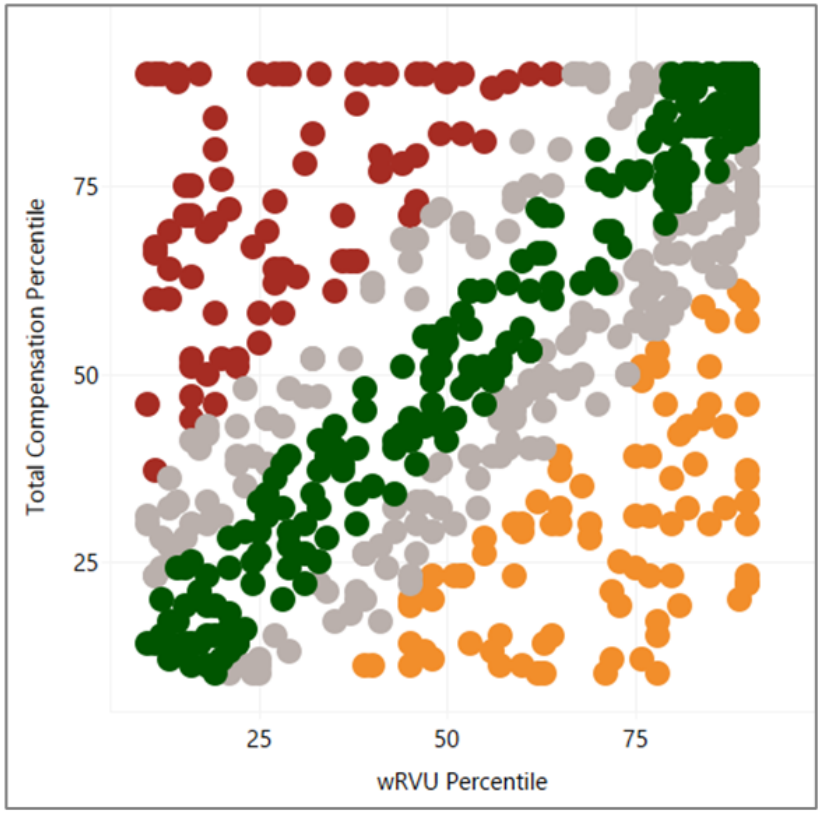


Figure: Relationship Between Provider Compensation and Productivity Determines Strategic Action



Upper Quadrant: Potential Compliance Risk

(42% of sampled providers)

Center: Aligned Compensation & Productivity

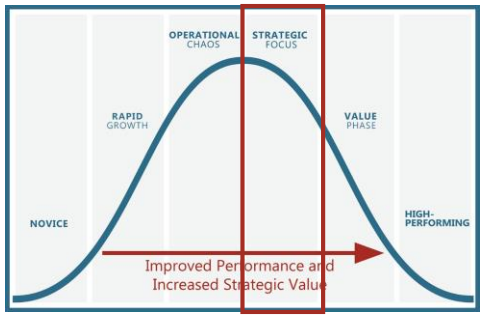
Lower Quadrant: Potential Retention Risk

Source: Blinded HSG client data (total compensation and total wRVUs for most recent 12 months by client) Compared to MGMA Provider Compensation and Productivity Survey: 2019 (National)

Each dot represents one physician. Position along x axis corresponds to productivity percentile. Position along y axis corresponds to compensation percentile.

Book Chapter 8

Characteristics of HSG Physician Network Growth Phases
Strategic Focus



Characteristics of **Strategic Focus**

- Network operations become better aligned
- Focus shifts to developing shared vision and associated strategic plan
- Physician leadership a crucial network competency
- Development of network-wide compensation philosophy
- Consider consolidating practices to enhance care delivery efficiencies
- Consider culling less effective and efficient providers from network (liabilities in Value Phase)
- Contemplate foundation and framework for population health management

Transitioning out of **Strategic Focus**

Maturing Physician Advisory Council playing key role in network decision-making process and enhancing operations.

→

Building a Shared Vision of the future of the network and associated strategic plan

→

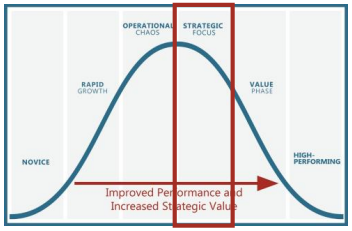
Redesigning physician compensation plan to incorporate quality, operational efficiency, customer service, and teamwork.

→

Increasing geographic market share through network's identifiable brand as cohesive group culture with high quality care and excellent customer service.

Book Chapter 8

Strategic Focus
Development of Shared Vision



Shared Vision Description

- Lengthy, descriptive narrative that clearly articulates how the group will ideally look and act in 5-10 years
- Defines an idealistic future state in enough detail so all stakeholders within the network can understand and work toward it
- Becomes cornerstone for "Group" Culture
- Becomes the basis for strategic planning and management action
- Physician leadership and subcommittees therein should actively be tasked with achievement of the Shared Vision

Book Chapter 8

Strategic Focus
Optimization of Physician Leadership Structures

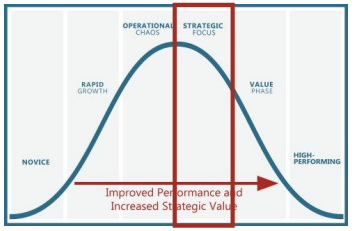


Figure: Organizations with Physician Leadership Structures Have More Positive Self-Perceptions

	Percentage of Survey Respondents Agreeing with Each Statement: Separated by Cohort	
	Cohort A	**Cohort B**
Survey Statement	This cohort HAS a physician leadership structure	This cohort DOES NOT HAVE a physician leadership structure
Our group has a definable, cohesive culture	**51%**	**27%**
Our network has minimal leakage	**50%**	**32%**
Providers in our network are efficient and productive	**42%**	**34%**
There is appropriate communication to our provider group	**74%**	**27%**
Our practice environment mitigates risk of provider burnout	**43%**	**26%**
We have the right mix and depth of providers	**63%**	**46%**
We have a shared vision for our network	**76%**	**43%**

Source: HSG Physician Network Evaluation Survey

Book Chapter 8

Characteristics of HSG Physician Network Growth Phases
Value Phase

Characteristics of the **Value Phase**

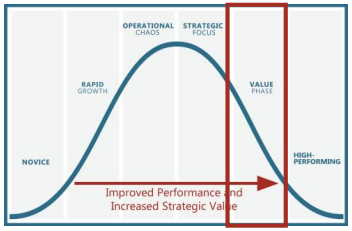
- Network becomes more integrate; operates with common culture
- Focus on quality initiatives and delivery of "Value"
- Embarks on clinical practice transformation
- Compensation Structure evolves to focus on nonproductivity incentives
- Leads the charge to serve as the core physician network for managed care offerings and controlling risk
- Building a brand that is recognized and valued in the market
- Physician leadership matures and epitomizes "Physician-Led"

Transitioning out of **Value**

Clinical practice transformation matures, team-based care value is realized, and burnout risk is mitigated. → Sophisticated population health management tenets are addressed and pursued. → The network's identifiable brand can be leveraged in the marketplace → Expanded capabilities take on increasingly complex issues, like risk-based reimbursement.

Book Chapter 9

Value Phase
Building Foundation for Risk Contracting

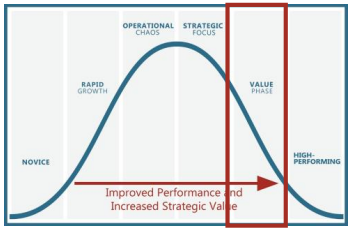


Core Components of Risk Contracting Strategy

- Engaging primary care physicians as leaders
- Evaluating barriers due to expensive service lines/Institutes
  - Understanding episodes of care
- Evaluating payer contracting options
- Changing care models/provider resources
  - Medical homes
  - APP mix to improve access and care
- Other levers
  - Care coordinators
  - Data resources
  - Compensation models

Book Chapter 9

Value Phase
Evolving Non-Productivity Incentives



- Provider incentive compensation must evolve as payer incentives evolve
- Non-productivity incentives are key to evolution of network in "Value" Phase
- Percentage of Compensation focused on non-productivity must evolve
  - Many Operational Chaos/Strategic Focus networks operating at 0-5% of total compensation for non-productivity
  - Value Phase networks typically closer to 15-20%


HSG
THOUGHT LEADERSHIP

PHYSICIAN COMPENSATION MODELS: NON-PRODUCTIVITY INCENTIVES

BY: DR. TERRY McWILLIAMS, NEAL BARKER, AND ERIC ANDREOLI

INTRODUCTION

As Employed Physician Networks and their health systems progress on the journey toward value-based care and its reimbursement, they encounter third-party payers who are increasingly structuring reimbursement parameters around pay-for-value tenets and placing percentages of traditional pay-for-volume earnings at risk for performance that satisfy value-based metric targets.

Tightening health system margins and increasing practice-related losses fuel organizations' need and desire to receive all available revenue for care rendered by the physician group. This push leads employed network leadership to contemplate mechanisms to ensure that network performance nets the maximum possible revenue capture. One of the areas that receives focus during these contemplations is whether the physician compensation model can be leveraged to align with enhanced value-based metric performance. In other words, can non-productivity incentives be included in the physician compensation model to directly align performance with payer initiatives associated with value-based care tenets and metrics?

The "Base plus Incentives" compensation model can be designed to distribute incentives among productivity and non-productivity incentives. Furthermore, incentives can be individual provider and/or group-based. Common non-productivity incentives include the following areas:

CLINICAL QUALITY MEASURES | PATIENT EXPERIENCE AND ENGAGEMENT | CITIZENRY | OPERATIONAL EFFICIENCIES | COST OF CARE

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https://hsgadvisors.com/articles/physician-compensation-models-non-productivity-incentives/

Book Chapter 9

Concluding Thoughts

- Evaluate where your network is, and what gaps it has to moving forward in its evolution. Walk before you run.
- This is the time to accelerate, not slow down. The current environment calls for strengthening of the network for the long-term, rather than short-term thinking.
- Shared Vision + Rightsized Infrastructure + Aligned Compensation goes a long way towards righting the direction of the network.

Learn More from HSG

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- **August 13th** – Building Differentiated Service Lines
- **August 27th** – Virtual Health: Optimize Patient Access, Capture, and Retention

Live webinars are hosted bi-weekly by HSG subject matter experts. All webinars will be live recorded at 2pm. ***By registering for the entire series of webinars you will automatically receive all recordings and presentation materials following the live broadcasts, even if unable to attend the live events.***

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OUR MISSION

HSG builds high-performing physician networks so health systems can address complex changes with confidence.

Company **Overview**

HSG builds high-performing physician networks so health systems can address complex changes with confidence.

Headquarters: Louisville, KY

Formed: 1999

Focus: Health Systems and Physician Network Strategy and Execution

Physician Strategy

Driving a common strategic focus with engaged physicians.

Physician Leadership

Identifying and engaging strong physician leaders is integral to the network's development and success.

Performance Improvement

Improving the performance of employed physician networks.

Network Integrity

Leveraging Physician Network Integrity Analytics™ to create and monitor strategies for patient acquisition and retention.

Physician Compensation

Aligning physician compensation with health system and employed network goals.

HSG **Services**

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